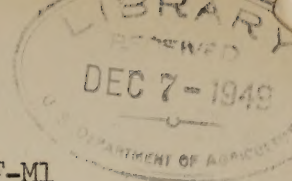


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UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration
Washington 25, D. C.

Administrative Memorandum

SUBJECT: Disposition of Borrowers' Excess General and Operating Funds

Advance payments on long-term debt are recognized as the best possible application of excess General and Operating Funds of REA borrowers. The reduction of outstanding obligations to the Government through such advance payments accomplishes the same purpose as the purchase of Government Bonds by providing funds to the United States Treasury for financing the war and other essential activities of the Government, and has the added advantage of reducing the interest expense of borrowers. Such payments constitute credits on borrowers' accounts and these credits may be transferred from one note to another to avoid or eliminate default.

The following considerations should be observed as a basis for guidance to borrowers in their disposition of General and Operating Funds, provided State laws do not necessitate other disposition:

First: A cash balance should be maintained in the General and Operating Fund not to exceed two and one-half months' normal operating requirements; and if surplus funds remain,

Second: An additional amount, as determined by the Directors, should be maintained preferably in Government Bonds or in cash to meet possible unusual or abnormal cash requirements. United States War Bonds of Series "F" and "G" are ideal for this purpose. This amount, in normal instances, should not exceed \$10 per mile of line.

Third: Any remaining balance of General and Operating Funds should be applied as advance payments on long-term obligations to the Government in order to reduce interest charges and establish a credit on their obligations to the Government.

William J. Neal
Acting Administrator

